



NEWPORT

EXPLORATION LTD.

CONDENSED INTERIM FINANCIAL STATEMENTS
(Unaudited)
(Expressed in Canadian Dollars)

OCTOBER 31, 2019

These unaudited condensed interim financial statements of Newport Exploration Ltd. for the three months ended October 31, 2019 have been prepared by management and approved by the Board of Directors. These unaudited condensed interim financial statements have not been reviewed by the Company's external auditors.

NEWPORT EXPLORATION LTD.
CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION
AS AT,
(Unaudited)
(Expressed in Canadian Dollars)

	October 31, 2019	July 31, 2019
ASSETS		
Current		
Cash and equivalents	\$ 230,930	\$ 2,967,459
Receivables (Note 3)	2,887,499	2,894,230
Prepaid expenses	-	7,369
Short-term investments	<u>1,981,018</u>	<u>3,974,165</u>
	5,099,447	9,843,223
Long-term investments	1,025,341	1,018,233
Equipment	15,625	5,497
Exploration and evaluation asset (Note 4)	<u>1</u>	<u>1</u>
	<u>\$ 6,140,414</u>	<u>\$ 10,866,954</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Note 6)	\$ 65,879	\$ 122,964
Income tax payable (Note 11)	<u>401,644</u>	<u>500,591</u>
	<u>467,523</u>	<u>623,555</u>
Shareholders' equity		
Capital stock (Note 7(a))	47,420,898	47,420,898
Reserves (Note 7(c))	1,792,287	1,792,287
Deficit	<u>(43,540,294)</u>	<u>(38,969,786)</u>
	<u>5,672,891</u>	<u>10,243,399</u>
	<u>\$ 6,140,414</u>	<u>\$ 10,866,954</u>

Nature of operations (Note 1)

Commitments (Note 9)

Dividends (Note 13)

_____ "Ian Rozier" Ian Rozier	Director	_____ "Barbara Dunfield" Barbara Dunfield	Director
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The accompanying notes are an integral part of these condensed interim financial statements.

NEWPORT EXPLORATION LTD.
CONDENSED INTERIM STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME
THREE MONTHS ENDED OCTOBER 31,
(Unaudited)
(Expressed in Canadian Dollars)

	2019	2018
EXPENSES		
Administration fees	\$ 3,600	\$ 3,600
Amortization	914	-
Consulting fees	135,800	135,000
Directors' fees	20,000	20,000
Foreign exchange loss	10,418	82,181
Management fees	87,000	87,000
Office and miscellaneous	33,529	22,266
Professional fees	25,057	19,131
Rent	41,848	22,500
Shareholder communications	3,201	1,336
Transfer agent and filing fees	4,661	4,195
Travel and related costs	<u>37,505</u>	<u>49,530</u>
Loss from operations	<u>(407,569)</u>	<u>(446,739)</u>
OTHER ITEMS		
Interest income	30,364	14,554
Petroleum royalty (Note 5)	<u>2,826,921</u>	<u>2,606,538</u>
	<u>2,857,285</u>	<u>2,621,092</u>
Net income before income taxes	<u>2,449,716</u>	<u>2,174,353</u>
Income tax expense (Note 11)	<u>(754,432)</u>	<u>(708,260)</u>
Net income and comprehensive income for the period	<u>\$ 1,695,284</u>	<u>\$ 1,466,093</u>
Earnings per common share:		
Basic	\$ 0.02	\$ 0.02
Diluted	\$ 0.02	\$ 0.02
Weighted average number of common shares outstanding:		
Basic (Note 7 (a))	104,429,874	95,674,265
Diluted (Note 7 (a))	<u>104,596,734</u>	<u>96,427,072</u>

The accompanying notes are an integral part of these condensed interim financial statements.

NEWPORT EXPLORATION LTD.
CONDENSED INTERIM STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED OCTOBER 31,
(Unaudited)
(Expressed in Canadian Dollars)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the period	\$ 1,694,284	\$ 1,466,093
Items not affecting cash:		
Amortization	914	-
Interest income	(30,364)	(14,554)
Income tax expense	754,432	708,260
Foreign exchange	35,868	58,304
Change in non-cash working capital items:		
Decrease (increase) in receivables	(47,344)	230,321
Decrease in prepaid expenses	7,369	6,869
Increase (decrease) in accounts payable and accrued liabilities	(55,085)	8,261
Interest received	84,145	43,689
Income taxes paid	<u>(847,715)</u>	<u>(842,827)</u>
Net cash provided by operating activities	<u>1,597,504</u>	<u>1,664,416</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Short-term investment redemptions, net	1,944,801	996,655
Purchase of equipment	<u>(13,042)</u>	<u>-</u>
Cash provided by (used in) investing activities	<u>1,931,759</u>	<u>996,655</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid	(6,265,792)	(5,153,194)
Issuance of common shares	<u>-</u>	<u>1,003,260</u>
Net cash used in financing activities	<u>(6,265,792)</u>	<u>(4,149,934)</u>
Decrease in cash during the period	(2,736,529)	(1,488,863)
Cash, beginning of period	<u>2,967,459</u>	<u>2,407,300</u>
Cash, end of period	\$ 230,930	\$ 918,437

The accompanying notes are an integral part of these financial statements.

NEWPORT EXPLORATION LTD.
CONDENSED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)
(Expressed in Canadian Dollars)

	<u>Capital Stock</u>				Total
	Number	Amount	Reserves	Deficit	
Balance at July 31, 2018	92,329,874	\$ 45,939,732	\$ 2,078,953	\$ (39,422,597)	\$ 8,596,088
Dividend distribution	-	-	-	(5,153,194)	(5,153,194)
Net income for the period	-	-	-	1,466,093	1,466,093
Shares issued pursuant to option exercise	6,100,000	641,166	(286,666)	-	354,500
Shares issued pursuant to warrant exercise	<u>4,634,000</u>	<u>648,760</u>	<u>-</u>	<u>-</u>	<u>648,760</u>
Balance at October 31, 2018	103,063,874	\$ 47,229,658	\$ 1,792,287	\$ (43,109,698)	\$ 5,912,247
Balance at July 31, 2019	104,429,874	\$ 47,420,898	\$ 1,792,287	\$ (38,969,786)	\$ 10,243,399
Dividend distribution	-	-	-	(6,265,792)	(6,265,792)
Net income for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,695,284</u>	<u>1,695,284</u>
Balance at October 31, 2019	104,429,874	\$ 47,420,898	\$ 1,792,287	\$ (43,540,294)	\$ 5,672,891

The accompanying notes are an integral part of these condensed interim financial statements.

1. NATURE OF OPERATIONS

Newport Exploration Ltd. (the “Company”) was incorporated on September 19, 1979 under the Business Corporations Act, British Columbia and is considered to be in the exploration stage with respect to its exploration and evaluation asset. Based on the information available to date, the Company has not determined whether its exploration and evaluation asset contains ore reserves. Recoverability of the carrying amount of the exploration and evaluation asset is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest. The Company, receives royalty payments related to a retained interest in certain petroleum licenses in Australia (note 5). The Company has no ability to determine the quantum or sustainability of future royalty payments, and as a result, there is no assurance the Company will continue to receive payments from its 2.5% gross overriding petroleum royalty. The receipt of royalty payments are not indicative of additional near-term income or any future income as the Company has no information to support or validate the expectation of future receipt. Any future royalty receipt is treated as fortuitous.

These unaudited condensed interim financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes that the Company will be able to continue in operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. To date, the Company has financed its operations primarily through issuance of common shares and from the receipt of royalty payments. The Company currently has cash and short term investments totalling \$2,211,948 and net working capital of \$4,631,924 which the Company believes is sufficient to fund its current business plans in the foreseeable future. In the longer term, additional equity or debt financing may be necessary to fund exploration and general and administrative activities or mine development or if royalty payments are not sufficient to fund such activities.

The Company’s head office and principal address is 202 – 2168 Marine Drive, West Vancouver, British Columbia, Canada, V7V 1K3. The Company’s registered and records office is 1500 – 1055 West Georgia Street, Vancouver, British Columbia, Canada, V6E 4N7.

2. STATEMENT OF COMPLIANCE AND NEW ACCOUNTING STANDARDS

These unaudited condensed interim financial statements were authorized for issue on December 16, 2019 by the directors of the Company.

Statement of compliance

These unaudited condensed interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) using accounting policies consistent with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations of the IFRS Interpretations Committee.

These unaudited condensed interim financial statements do not include all of the information required of a full annual financial report and is intended to provide users with an update in relation to events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the end of the last annual reporting period. It is therefore recommended that this financial report be read in conjunction with the audited annual financial statements of the Company for the year ended July 31, 2019.

2. STATEMENT OF COMPLIANCE AND NEW ACCOUNTING STANDARDS (cont'd)

New Accounting Standards Adopted during the period

IFRS 16 – Leases

On January 13, 2016 the IASB issued IFRS 16 – Leases, which will supersede IAS 17 – Leases. The standard introduced a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset over a period of time in exchange for consideration. The Company assesses whether the contract involves the use of an identified asset, whether it has the right to obtain substantially all of the economic benefits from the use of the asset during the term of the contract and it has the right to direct the use of the asset.

The right-of-use asset is subsequently amortized from the commencement date to the earlier of the end of the lease term, or the end of the useful life of the asset. The right-of-use asset may be reduced due to impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the interest rate implicit in the lease, or if that rate cannot be readily determined, the incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest method. Lease payments included in the measurement of the lease liability comprise fixed payments, variable lease payments, and amounts expected to be payable at the end of the lease term.

IFRS 16 has changed how the Company accounts for leases previously classified as operating leases under IAS 17, which were off-balance-sheet. Applying IFRS 16 for all except for short-term leases and leases of low-value assets, the Company will (1) recognize 'right-of-use' assets and lease liabilities in the balance sheet, initially measured at the present value of future lease payments discounted at the incremental borrowing rate; (ii) recognize depreciation of right-of-use assets and interest on lease liabilities in the statement of earnings; and (iii) separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the statement of cash flows. For short-term leases (lease term of 12 months or less) and leases of low-value assets, the Company has opted to recognise a lease expense on a straight-line basis as permitted. The Company has taken the exemptions related to short-term and low-value asset leases. Leases to explore for or use of minerals are not in the scope of the standard.

The Company adopted IFRS 16 using the modified retrospective basis and did not restate comparative amounts. However, the adoption of IFRS 16 had no impact on the financial statements on the date of adoption.

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
(Unaudited)
(Expressed in Canadian Dollars)
OCTOBER 31, 2019

3. RECEIVABLES

Trade and other receivables are comprised of the following:

	October 31, 2019	July 31, 2018
GST receivable	\$ 34,717	\$ 14,242
Petroleum royalty (Note 7)	2,852,389	2,867,249
Other	394	12,739
Total	\$ 2,887,499	\$ 2,894,230

Information about the Company's exposure to credit risk and market risk for the Petroleum Royalty is included in Note 12.

4. EXPLORATION AND EVALUATION ASSET

During the year ended July 31, 2014, the Company acquired a 100% interest in Chu Chua, a sulphide deposit located north of Kamloops, British Columbia. In consideration, the Company paid Grosvenor Resource Corporation ("Grosvenor") \$1,500,000 and issued 5,436,000 common shares of the Company having a fair value of \$217,440. The acquisition agreement supercedes and replaces an earlier 50% earn-in agreement wherein the Company incurred a total of \$335,012 in expenditures. There are two separate 1% net smelter returns on Chu Chua to underlying parties. A significant shareholder of Grosvenor is a director of Newport. During the year ended July 31, 2018, the Company determined it had no current plans for exploration on the property, and determined that Chu Chua should be impaired to its recoverable amount of \$1. Accordingly, the Company recorded an impairment charge of \$2,082,080 to operations during the year ended July 31, 2018.

5. PETROLEUM ROYALTY

Under the terms of an agreement for the sale of CVL Resources (Barbados) Ltd. (formerly a wholly-owned subsidiary of the Company) in 2002, the Company retained a 2.5% gross overriding royalty interest on any hydrocarbons discovered on certain petroleum exploration licences in Australia. During the three months ended October 31, 2019, the Company earned \$2,826,821 (2018 - \$2,606,538) of petroleum royalty income, of which \$2,852,389 (July 31, 2019 - \$2,867,249) is included in receivables as at October 31, 2019. Subsequent to October 31, 2019, the Company received AUD\$2,200,918 which represents the royalty receivable net of a 30% withholding tax of AUD\$943,250. The receipt of royalty payments is considered to be highly variable, and as such these payments are not indicative of additional near-term income or any future income.

During the year ended July 31, 2016, the Australian Tax Office ("ATO") ruled that the Company's petroleum royalty income is taxable in Australia and, as such, the Company has 30% of its royalty payment withheld at source by Beach Energy Ltd ("Beach") and Santos Ltd ("Santos"), which Beach and Santos are required to remit to the ATO. The Company files annual tax returns in Australia.

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6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	October 31, 2019	July 31, 2019
Trade payables	\$ 51,175	\$ 10,282
Due to related parties (Note 10)	14,354	13,332
Accrued liabilities	350	99,350
Total	\$ 65,879	\$ 122,964

The Company's exposure to liquidity risk is included in Note 12.

7. CAPITAL STOCK AND RESERVES

a) Authorized share capital

As at October 31, 2019, the authorized share capital of the Company is an unlimited number of common shares without par value.

Basic and diluted per share amounts have been calculated based on the following:

	October 31, 2019	October 31, 2018
Weighted average number of common shares - basic	104,429,874	95,674,265
Effect of outstanding stock options	166,860	86,733
Effect of outstanding warrants	-	666,074
Weighted average number of common shares - diluted	104,596,734	96,427,072

Only the "in-the-money" dilutive instruments impact the calculation of dilutive income per common share.

During the three months ended October 31, 2018, the Company received proceeds of \$1,003,260 from the exercise of 4,634,000 warrants and 6,100,000 stock options. In conjunction with the exercise of stock options, the Company reclassified \$286,666 to capital stock from contributed surplus.

b) Stock options

The Company has an incentive stock option plan (the "Plan") in place under which it is authorized to grant options to directors and employees to acquire up to 10% (10,442,987) of the issued and outstanding common shares of the Company to be issued from the treasury upon exercise of the stock options. Under the Plan, the exercise price of each option may not be less than the market price of the Company's stock as calculated on the date of Grant less any applicable discount permitted by the securities regulatory authorities. The options can be granted for a maximum term of 10 years and vesting periods are determined by the Board of Directors.

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7. CAPITAL STOCK AND RESERVES (cont'd)

b) Stock options (cont'd)

Details of options outstanding as at October 31, 2019 are as follows:

Number of Options	Exercise Price	Expiry Date
1,650,000*	\$0.34	December 13, 2019
<u>1,300,000</u>	\$0.26	October 8, 2020
2,950,000		

*expired, unexercised subsequent to October 31, 2019.

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Balance, July 31, 2018	9,050,000	\$ 0.14
Exercised	<u>(6,100,000)</u>	0.06
Balance, July 31, 2019 & October 31, 2019	2,950,000	\$ 0.30
Number of options exercisable	2,950,000	\$ 0.30

c) Warrants

There are no warrants outstanding at October 31, 2019.

Warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, July 31, 2018	6,000,000	\$ 0.14
Exercised	<u>(6,000,000)</u>	0.14
Balance, July 31, 2019 & October 31, 2019	-	\$ -

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8. RELATED PARTY TRANSACTIONS

The aggregate value of transactions with key management personnel, consisting of the Chief Executive Officer (“CEO”), Chief Financial Officer (“CFO”) and members of the board of directors, for compensation are as follows:

	October 31, 2019	October 31, 2018
Management fees	\$ 87,000	\$ 87,000
Consulting fees	126,000	126,000
Directors fees	20,000	20,000

In addition, during the three months ended October 31, 2019, the Company entered into the following transactions with related parties:

- a) Reimbursed rent of \$41,848 (2018 - \$22,500) to companies controlled by a director of the Company.
- b) Paid or accrued professional fees of \$1,022 (2018 - \$1,131) to a legal firm of which an officer of the Company is a partner.

As at October 31, 2019, accounts payable and accrued liabilities included \$14,354 (July 31, 2019 - \$13,332) owing to directors of the Company.

9. COMMITMENTS

The Company has management and consulting contracts with a company controlled by Barbara Dunfield, a director and CFO of the Company, and a company controlled by Ian Rozier, a director and CEO of the Company. The Company pays the companies a combined total of \$71,000 per month. These contracts remain in force on a continuous basis and can be terminated by the Company with 90 days written notice. If termination of services of either or both companies is without cause, the Company will be obligated to pay 36 months of service fees to either or both companies.

10. SEGMENTED INFORMATION

The Company operates in one business segment being the acquisition and exploration of resource properties. The Company’s mineral property is in Canada and the Company’s royalty income is derived from Australia.

11. INCOME TAXES

The Company received a private tax ruling from the Australian Tax Office (the "ATO") indicating that the Company's royalties received from Beach and Santos, current and past, (net of applicable expenses) are subject to withholding tax in Australia. The Company had a net Australian income tax liability at October 31, 2019 of \$401,644 (July 31, 2019 - \$500,591) which consists of accrued withholding taxes on its Royalty receivable at October 31, 2019 of \$855,717 (July 31, 2019 - \$860,175) and accrued Australian income tax receivable of \$454,073 (July 31, 2019 - \$359,584). Subsequent to October 31, 2019, the Company received its July 31, 2019 Australian income tax receivable.

12. FINANCIAL AND CAPITAL RISK MANAGEMENT

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The carrying value of cash, receivables and accounts payable and accrued liabilities approximate their fair value because of the short-term nature of these instruments. The fair value of short term investments was \$1,981,018 at October 31, 2019 (July 31, 2019 - \$3,974,165), a level 1 fair value measurement.

Financial risk factors

The Company's Board of Directors has the overall responsibility for the established method and oversight of the Company's risk management framework.

The Company is exposed in varying degrees to a variety of financial instrument related risks and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Credit risk

Credit risk is the risk of financial loss associated with counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and equivalents, short-term investments and receivables, the carrying value totalling \$5,099,447, represents the Company's maximum exposure to credit risk. Management believes that the credit risk concentration with respect to financial instruments is remote because cash and equivalents and short-term investments are held with reputable Canadian financial institutions. Receivables consist mainly of the Company's royalty income. The royalty income comes from one company, and is typically received within 30 days after the quarter of production. The Company does not consider any of its current receivables past due. The Company believes any credit risk associated with its receivables is remote due to the historical success of collecting receivables.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when they come due. As at October 31, 2019, the Company had a cash and equivalents balance of \$230,930 (July 31, 2019 - \$2,967,459), receivables of \$2,887,499 (July 31, 2019 - \$2,894,230) and short-term investments of \$2,851,833 (July 31, 2019 - \$3,974,165) to settle current liabilities of \$467,523 (July 31, 2019 - \$623,555). All of the Company's financial liabilities are subject to normal payment terms.

12. FINANCIAL AND CAPITAL RISK MANAGEMENT (cont'd)

Financial risk factors (cont'd)

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. These fluctuations may be significant.

a) Interest rate risk

The Company has cash and equivalents balances and short-term investments. The Company's current policy is to invest excess cash in investment-grade short-term deposits certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. The effect on net income and comprehensive income of a 1% change in interest rates is approximately \$14,500.

b) Foreign currency risk

The Company is exposed to foreign currency risk with respect to its petroleum royalty payment, and its net income tax payable which are denominated in Australian dollars. The net effect on net income and comprehensive income of a 1% change in exchange rates between the Australian dollar and Canadian dollar foreign exchange is approximately \$18,300. The Company does not currently hedge exchange risk.

Capital management

Newport's objective is to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company includes the components of shareholders' equity.

Newport manages the capital structure and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash.

In order to facilitate the management of its capital requirements, the Company monitors its expenditures against its available capital.

The Company is currently not subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management.

13. DIVIDENDS

On September 16, 2019, the Company announced the payment of a one-time special dividend of \$0.06 per common share. The special Dividend was paid to shareholders of record at the close of business on September 25, 2019, resulting in a distribution of \$6,265,792 on September 30, 2019.

On September 27, 2018, the Company announced the payment of a one-time special dividend of \$0.05 per common share. The special Dividend was paid to shareholders of record at the close of business on October 12, 2018, resulting in a distribution of \$5,153,194 on October 19, 2018.